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ANNUAL AUDITED REPORT

FORM X-17A-5

PART III

FACING PAGE

FEB 27 2009

Washington, DC

SEC FILE NUMBER

8-45388

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/08 AND ENDING 12/31/08
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

401(k) Investment Services, Inc.

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

98 San Jacinto Blvd., Suite 1100

(No. and Street)

Austin

(City)

Texas

(State)

78701

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Geoffrey Huggins

(415) 636-3191

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Deloitte & Touche LLP

(Name - if individual, state last, first, middle name)

50 Fremont Street

(Address)

San Francisco California

(City)

94105

(State)

(Zip Code)

CHECK ONE:



Certified Public Accountant



Public Accountant



Accountant not resident in United States or any of its possessions.

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

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** for conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)3

OATH OR AFFIRMATION

I, Robyn Alcorta, affirm that, to the best of my knowledge and belief, the accompanying financial statements and supplemental schedule pertaining to 401(k) Investment Services, Inc. (the Company) (a wholly-owned subsidiary of The 401(k) Companies, Inc.) as of and for the year ended December 31, 2008 are true and correct. I further affirm that neither the Company nor any principal officer or director has any proprietary interest in any account classified solely as that of a client.

State of Texas)
County of Travis)ss.

Robyn G. Alcorta
Signature

On this 24th day of February 2009 before
me, Sandra L. Erwin, Notary
Public, personally appeared Robyn Alcorta,
who proved to me on the basis of
satisfactory evidence to be the person
whose name is subscribed to the within
instrument and acknowledged to me that
she executed the same in her authorized
capacity and that by her signature on
the instrument the person, or the entity
upon behalf of which the person acted,
executed the instrument.

Chief Executive Officer
Title

I certify under PENALTY OF PERJURY
under the laws of the State of California
that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Sandra L. Erwin
Notary Public



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Washington, DC
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**401(k) Investment Services, Inc.
(SEC. I.D. NO. 8-45388)**

**Statement of Financial Condition as of
December 31, 2008 and Independent Auditors'
Report and Supplemental Report on Internal
Control**

PUBLIC DOCUMENT

*(Pursuant to Rule 17a-5(e)(3) under
the Securities Exchange Act Of 1934)*

INDEPENDENT AUDITORS' REPORT

401(k) Investment Services, Inc.

We have audited the accompanying statement of financial condition of 401(k) Investment Services, Inc. (the Company) as of December 31, 2008, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such statement of financial condition presents fairly, in all material respects, the financial position of 401(k) Investment Services, Inc. at December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

February 24, 2009

401(k) INVESTMENT SERVICES, INC.

STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2008 (In thousands)

Assets

Cash and cash equivalents	\$ 8,092
Receivables from brokers, dealers, and clearing organizations	205
Goodwill	28,700
Other assets	<u>1,678</u>
Total assets	<u>\$ 38,675</u>

Liabilities and Stockholder's Equity

Payables to Parent and affiliates	\$ 2,685
Deferred tax liability — net	1,084
Accrued expenses and other liabilities	<u>485</u>
Total liabilities	4,254
Stockholder's equity:	
Common stock 1,000,000 shares authorized	-
Additional paid-in capital	30,030
Retained earnings	<u>4,391</u>
Total stockholder's equity	<u>34,421</u>
Total liabilities and stockholder's equity	<u>\$ 38,675</u>

See Notes to Statement of Financial Condition.

401(k) INVESTMENT SERVICES, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

For the Year Ended December 31, 2008

(Tabular amounts in thousands)

1. Organization and Nature of Business

401(k) Investment Services, Inc. (the Company) is a wholly-owned subsidiary of The 401(k) Companies, Inc. (the Parent), a wholly-owned subsidiary of the Charles Schwab Corporation (CSC). The Company was incorporated for the purpose of serving as an introducing broker-dealer for the customers of The 401(k) Company (Affiliate), a wholly-owned subsidiary of the Parent. The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC). The Company's primary regulator is Financial Industry Regulatory Authority, Inc.

2. Summary of Significant Accounting Policies

Basis of presentation — The statement of financial condition has been prepared in conformity with accounting principles generally accepted in the U.S. (GAAP), which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying statement of financial condition. Certain estimates include the valuation of goodwill and legal reserves. Actual results could differ from those estimates.

Cash and cash equivalents — The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include deposits with banks.

Goodwill — Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. Goodwill is tested for impairment annually and whenever indications of impairment exist. In testing for a potential impairment of goodwill, management estimates the fair value of the Company and compares it to its carrying value. If the estimated fair value of the Company is less than its carrying value, management is required to estimate the fair value of all assets and liabilities of the Company, including goodwill. If the carrying value of the Company's goodwill is greater than the estimated fair value, an impairment charge is recognized for the excess. The Company has elected April 1st as its annual impairment testing date.

Income taxes — The Company is included in the consolidated federal income tax return of CSC. It provides for income taxes on all transactions that have been recognized in the statement of financial condition in accordance with Statements of Financial Accounting Standards No. 109 – Accounting for Income Taxes (SFAS No. 109) on a pro rata basis with CSC's other subsidiaries in the consolidated income tax return. Accordingly, deferred tax assets are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax assets and deferred tax liabilities, as well as other changes in income tax laws, are recorded in earnings in the period during which the changes are enacted. The Company records uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes.

Estimated fair value of financial instruments — The Company has the following financial instruments which are recorded at estimated fair value or amounts that approximate fair value: Cash and cash equivalents, receivables from brokers, dealers, and clearing organizations, and payables to Parent and affiliates. The carrying amounts of these instruments are reasonable estimates of fair value since such amounts are payable or receivable on demand or generally settle within 30 days.

401(k) INVESTMENT SERVICES, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

For the Year Ended December 31, 2008

(Tabular amounts in thousands)

3. Commitments and Contingent Liabilities

The Company is subject to claims and lawsuits in the ordinary course of business, including arbitrations, class actions, and other litigation. The Company is also the subject of inquiries, investigations, and proceedings by regulatory and other governmental agencies. Based on current information and consultation with counsel, there are no matters currently pending.

4. Related-Party Transactions

At December 31, 2008, payables due to the Parent and affiliates of \$2.7 million are payable on demand. At December 31, 2008, receivables from affiliates were \$316 thousand and are included in other assets.

The Company and its Affiliate share certain office facilities and administrative services. The two parties have a cost sharing agreement (the Agreement) whereby the Company pays the Affiliate a monthly management fee in exchange for use of these facilities and services. Under the terms of the Agreement, the Affiliate will segregate all of the costs associated with these services into one or more unique cost centers. Based on this allocation, the monthly charge for these services will be fixed at 100% of normal monthly expenses as processed through such pre-defined cost centers.

5. Taxes on Income

At December 31, 2008, net deferred tax liability of \$1.1 million were comprised of deferred tax liabilities of \$1.2 million, primarily attributable to goodwill, offset by deferred tax assets of \$88 thousand, primarily attributable to employee compensation and benefits. The Company determined that no valuation allowance against deferred tax assets at December 31, 2008 was necessary.

6. Regulatory Requirements

The Company does not carry or clear customer accounts, but operates pursuant to SEC Rule 15c3-3(k)(2)(ii), clearing transactions on a fully disclosed basis through a clearing broker. The Company also operates pursuant to SEC Rule 15c3-3(k)(2)(i) effectuating customer mutual fund transactions through a clearing organization. These clearing organizations have agreed to maintain such records of the transaction effected and cleared in the customers' accounts as are customarily made and kept by a clearing firm and to perform all services pursuant to the requirements of all SEC rules.

The Company is subject to SEC Rule 15c3-1 under the Act, and computes net capital under the basic net capital method permitted by this rule. This method requires the maintenance of minimum net capital and requires the ratio of aggregate indebtedness to net capital not to exceed 15 to 1, both as defined. Under the basic method, the Company may not pay cash dividends, or withdraw equity capital if the resulting net capital ratio would exceed 10 to 1. At December 31, 2008, 6 2/3% of aggregate indebtedness was \$211 thousand, which exceeded the minimum dollar requirement for the Company of \$25 thousand. At December 31, 2008, the Company's net capital was \$3.9 million, which was \$3.7 million in excess of its minimum required net capital. At December 31, 2008, the Company's ratio of aggregate indebtedness to net capital was 0.82 to 1.

401(k) INVESTMENT SERVICES, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

For the Year Ended December 31, 2008

(Tabular amounts in thousands)

7. Financial Instruments Subject to Off-Balance Sheet Risk, Credit Risk, or Market Risk

The agreement between the Company and its clearing broker provides that the Company is obligated to assume any exposure related to nonperformance by customers of its Affiliate. The Company seeks to control the risk associated with nonperformance by reviewing information it receives from its clearing broker on a daily basis and reserving for doubtful accounts when necessary. Management believes that the potential for the Company to make payments under these customer transactions is remote. Accordingly, no additional liability has been recognized for these transactions.

8. Geographic Concentration

At December 31, 2008, approximately 32% of the total client accounts of the Company's Affiliate were located in Texas.

February 24, 2009

401(k) Investment Services, Inc.

In planning and performing our audit of the financial statements of 401(k) Investment Services, Inc. (the "Company") as of and for the year ended December 31, 2008 (on which we issued our report dated February 24, 2009 and such report expressed an unqualified opinion on those financial statements), in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and the standards of the Public Company Accounting Oversight Board (United States), we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A deficiency in control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2008, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, Financial Industry Regulatory Authority, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered broker-dealers and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Deloitte + Touche LLP

END